

EMEA DC Meeting Statement 19 August 2022

regarding settlement of credit derivative transactions in relation to the Russian Federation

Issue number 2022052501

1. As noted in the EMEA DC Meeting Statement of 25 July 2022, the EMEA DC is preparing to hold an Auction to settle credit derivative transactions in relation to the Russian Federation. The EMEA DC is working through the final elements of the process required to hold an Auction. Although the date for such Auction is yet to be determined, the EMEA DC presently anticipates holding an Auction in the first half of September. The final date for the Auction will be announced in due course.
2. The EMEA DC is continuing to assess the potential impact of settlement restrictions in relation to Bonds issued by the Russian Federation. The EMEA DC will publish a further update on this ahead of the Auction.
3. The EMEA DC is also considering how to address settlement of the Representative Auction-Settled Transactions ("RASTs") given the requirements of OFAC General Licence No. 46 of 22 July 2022 (**OFAC Licence 46**).

4. Physical Settlement Period

- 4.1 The EMEA DC is considering the following options for the Physical Settlement Period. Note that this Meeting Statement uses the terminology from the Auction Settlement Terms – the Buyer under a RAST is the person delivering a Deliverable Obligation and the Seller under a RAST is the person receiving a Deliverable Obligation.

Physical Settlement Period Option A

- 4.2 Notices of Physical Settlement (**NOPS**) will need to be delivered by a specific deadline on the Business Day immediately following the Auction Date (the **Notice of Physical Settlement Date**) – e.g.:
 - (a) NOPS in respect of Customer Buy RASTs (i.e. where the customer is selling the relevant Deliverable Obligation) must be delivered by 12:00 p.m. London time.
 - (b) NOPS in respect of Auction RASTs (i.e. between two dealer Participants in the Auction) must be delivered by 3:00 p.m. London time.
 - (c) NOPS in respect of Customer Sell RASTs (i.e. where the customer is acquiring the relevant Deliverable Obligation) must be delivered by 6:00 p.m. London time.
 - (d) If the relevant Buyer under a RAST does not deliver a NOPS, then Seller can deliver the NOPS on the next Business Day. NOPS Amendment Notices would not be permitted.
 - (e) The Physical Settlement Period for RASTs would be:
 - (A) two Business Days following the Notice of Physical Settlement Date in relation to a Customer Buy RAST;
 - (B) four Business Days following the Notice of Physical Settlement Date in relation to an Auction RAST; and
 - (C) six Business Days following the Notice of Physical Settlement Date in relation to a Customer Sell RAST.

- 4.3 Option A is intended to allow RASTs to settle before the expiry of the eight business day period for purchase and receipt of debt obligations of the Russian Federation following the Auction (as provided for in paragraph (b) of OFAC Licence 46) (the **OFAC Trading Window**). This may enable a Buy-in to occur during the OFAC Trading Window (see below) and may also facilitate settlement taking place during a period in which there are fewer settlement restrictions. As noted in paragraph 2 above, a number of settlement restrictions are currently in place. There is no assurance that any such restrictions will be lifted but if such restrictions are lifted, then it is possible such restrictions are only lifted around the OFAC Trading Window.

Physical Settlement Period Option B

- 4.4 As an alternative, the EMEA DC is considering:
- (a) following the approach to delivery of NOPS set out above in respect of Option A; and
 - (b) providing for a significantly longer Physical Settlement Period – this could be as long as several months.¹
- 4.5 OFAC FAQ 1072 notes that OFAC Licence 46 “does not require the clearance and settlement of such transactions to be completed within eight business days after the conclusion of the auction.” In other words, settlement of RASTs may be extended beyond the OFAC Trading Window. An extended settlement period is intended to address concerns that settlement of Russian Bonds (including on a free of payment basis in respect of the Bonds with RU ISINs) may take significantly longer than is typical.
- 4.6 Note that if this option is adopted then a Buy-in would not be possible during the OFAC Trading Window.

5. Buy-in provisions

- 5.1 The EMEA DC is aware that conversion between the Regulation S and Rule 144A ISINs in respect of Russian Bonds is constricted. Any buy-in procedures that are adopted would permit the Seller under the RAST to buy-in either the Regulation S or Rule 144A ISIN (regardless of the ISIN the Buyer under the RAST initially specified in the NOPS).
- 5.2 The EMEA DC is considering the following options for the operation of the Buy-in provisions.

Buy-in Option A

- 5.3 The normal procedures set out in Section 9.7 of the 2014 Definitions (as amended by the Auction Settlement Terms) would apply, provided that in seeking buy-in offers, Seller is only under an obligation to obtain firm tradeable quotations (or quotations that would be firm but for the Seller being unable to transact due to sanctions) and need not actually commit to purchase the relevant Bonds.
- 5.4 This option could be used regardless of which approach is taken in relation to the Physical Settlement Period.

Buy-in Option B

- 5.5 This option could be used if Physical Settlement Period Option A is selected. This is because the Physical Settlement Period will end in respect of all RASTs prior to the expiry of the OFAC Trading Window.

¹ Any settlement period extending beyond the OFAC Trading Window would need to be considered in light of any settlement restrictions that may apply at the time.

- 5.6 The buy-in procedures would be accelerated such that the Seller is entitled to buy-in immediately following the end of the relevant Physical Settlement Period up until the end of the OFAC Trading Window. The Seller would be required to actually commit to purchase the relevant Bonds.
- 5.7 If the RAST has not successfully settled (either through delivery or by way of a buy-in) at the end of the OFAC Trading Window, then either:
- (a) the RAST could terminate with no payment being made to either party; or
 - (b) the Buyer's right to deliver could be reinstated for an additional period and at that the end of that period either a further buy-in procedure (using Buy-in Option A) or a no cost termination could apply.²

6. Feedback

- 6.1 Eligible Market Participants are requested to provide feedback to the DC Secretary on their preferred approach to both the Physical Settlement Period and the Buy-in by no later than Wednesday 24 August 2022.
- 6.2 Any dealer wishing to participate in the Auction as a participating bidder should contact the DC Secretary as soon as possible.
- 6.3 Note that the EMEA DC has previously published the Preliminary List and Initial List of Deliverable Obligations for the Auction. The EMEA DC will publish the Final List of Deliverable Obligations for the Auction in due course.

² Any settlement period extending beyond the OFAC Trading Window would need to be considered in light of any settlement restrictions that may apply at the time.